

2016
(November)

COMMERCE
(Speciality)

Course : 302

(**Financial Management**)

*The figures in the margin indicate full marks
for the questions*

(New Course)

Full Marks : 80
Pass Marks : 24

Time : 3 hours

1. (a) Fill in the blanks : 1×4=4

(i) Finance function is the most important of all _____ functions.

(ii) _____ working capital helps in maintaining solvency of the business by providing uninterrupted flow of production.

(2)

(iii) Cost of capital is the ____ rate of return expected by its investors.

(iv) The value of the firm can be maximized, if the shareholders' wealth is ____.

(b) Write 'True' or 'False' : 1×4=4

(i) 'Finance' has been rightly termed as universal lubricant which keeps the enterprise dynamic.

(ii) Working capital is also known as revolving or circulating capital.

(iii) Operating Leverage × Composite Leverage = Financial Leverage.

(iv) Payment of dividend at the usual rate is termed as regular dividend.

2. Write short notes on any four of the following : 4×4=16

(a) Financial forecasting and planning

(b) Working capital management

(c) Capital budgeting decisions

(d) Payback period method

(e) Stable dividend policy

3. (a) "Maximization of profit is regarded as the proper objective of investment decisions, but it is not as exclusive as maximizing shareholders' wealth." Comment. 14

(3)

Or

(b) What is finance function? Critically analyze the functions of financial manager in a large-scale industrial establishment. 2+12=14

4. (a) Define the term 'working capital'. On the formation of a new business, what considerations are taken into account in estimating the amount of working capital needed? 3+11=14

Or

(b) J. K. Ltd. requests you to prepare a statement showing the working capital requirements for a level of activity of 156000 units of production. 14

The following information is available for your calculations :

	₹ (per unit)
Raw Materials	90
Direct Labour	40
Overheads	<u>75</u>
	205
Profit	<u>60</u>
Selling Price	<u>265</u>

(4)

- (i) Raw materials are in stock, on average one month
- (ii) Materials are in process, on average 2 weeks
- (iii) Finished goods are in stock, on average one month
- (iv) Credit allowed by suppliers, one month
- (v) Time lag in payment from debtors, 2 months
- (vi) Lag in payment of wages, $1\frac{1}{2}$ weeks
- (vii) Lag in payment of overheads is one month

20% of the output is sold against cash. Cash in hand and at bank is expected to be ₹ 60,000. It is to be assumed that production is carried on evenly throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

(5)

5. (a) What is cost of capital? Explain its significance. A firm has the following capital structure and after-tax costs for the different sources of funds used :

Sources of funds	Amount (₹)	Proportion	After-tax cost (%)
Debt	15,00,000	25	5
Preference shares	12,00,000	20	10
Equity shares	18,00,000	30	12
Retained earnings	<u>15,00,000</u>	<u>25</u>	11
Total	<u>60,00,000</u>	<u>100</u>	

You are required to compute weighted average cost of capital. $2+4+8=14$

Or

- (b) What do you mean by 'financial leverage'? Distinguish between financial leverage and operating leverage. Do you think that they are related to capital structure? $3+6+5=14$
6. (a) Discuss the various types of dividend policies. State the various forms of dividends on the basis of payments. $8+6=14$

Or

- (b) Discuss the MM theory of dividend distribution. What are the criticisms of this theory of irrelevance? $8+6=14$

(6)

(Old Course)

Full Marks : 80

Pass Marks : 32

Time : 3 hours

1. (a) Write 'True' or 'False' : $1 \times 4 = 4$

- (i) Corporation finance is a wider term than business finance.
- (ii) Net working capital is the excess of current liabilities over current assets.
- (iii) Dividend policy of a firm affects both the long-term financing and shareholders' wealth.
- (iv) Equity shareholders have a residual claim on the assets of the company.

(b) Fill in the blanks : $1 \times 4 = 4$

- (i) It is better for a company to remain in _____ gear during the period of depression.
- (ii) The rate of return on investments _____ with the shortage of working capital.

(7)

(iii) Capital investment decisions are generally of _____ nature.

(iv) A firm will have favourable leverage if its _____ are more than the debt cost.

2. Write short notes on any four of the following : $4 \times 4 = 16$

- (a) Wealth maximization
- (b) Capital market
- (c) Management of receivables
- (d) Stable dividend policy
- (e) Trading on equity

3. (a) What do you mean by business finance? What is the scope of finance function in a business enterprise? Should the goal of financial decision-making be profit maximization or wealth maximization? $2+4+6=12$

Or

(b) What is financial management? What major decisions are required to be taken in finance? $4+8=12$

(8)

4. (a) Distinguish between operating leverage and financial leverage. Do you think that they are related to capital structure? 7+4=11

Or

- (b) (i) A company issues 10000, 10% preference shares of ₹ 100 each. Cost of issue is ₹ 2 per share. These shares are redeemable after 10 years at a premium of 5%. Calculate the cost of preference capital.
- (ii) A company issues 1000, 10% preference shares of ₹ 100 each at a discount of 5%. Cost of raising capital are ₹ 2,000. Compute the cost of preference capital.
- (iii) A company raises ₹ 90,000 by the issue of 1000, 10% debentures of ₹ 100 each at a discount of 10% repayable at par after 10 years. If the rate of the company's tax is 50%, what is the cost of debt capital to the firm? 3+4+4=11

(9)

5. (a) Describe the various natures of short-term and long-term requirement of finance in a business and sources from which those can be arranged. 5+6=11

Or

- (b) What do you understand by leasing? State its advantages and limitations. 3+4+4=11

6. (a) Explain the various factors which influence the dividend decision of a firm. 11

Or

- (b) There is a strong view prevalent among financial experts that the irrelevant hypothesis underlying the MM theory of dividend distribution is outdated and unsuited to present conditions. Do you agree with the view? Discuss. 11

7. (a) What is cash management? Explain various methods of investing surplus cash. What criteria should a firm use for investing idle cash in marketable securities? 2+6+3=11

(10)

Or

- (b) The management of Vishal Ltd. has called for statement showing the working capital needed to finance a level of activity of 300000 units of output for the year. The cost structure for the company's product, for the above-mentioned activity level is detailed below :

	Cost per unit
	₹
Raw Materials	20
Direct Labour	5
Overheads	15
Total	<u>40</u>
Profit	10
Selling Price	<u>50</u>

- (i) Past experience indicates that raw materials are held in stock on an average for two months
- (ii) Work-in-process (100% complete in regard to materials and 50% for labour and overheads) will approximately be half a month's production
- (iii) Finished goods remain in warehouse, on an average for a month

(11)

- (iv) Suppliers of materials extend a month's credit
- (v) Two months credit is allowed to debtors, calculation of debtors may be made at selling price
- (vi) A minimum cash balance of ₹ 25,000 is expected to be maintained
- (vii) The production pattern is assumed to be even during the year

Prepare the statement of working capital requirements.

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